



BUDGET BRIEFS

GOVERNOR DAVIS' RECORD SETTING MAY REVISION

IN THIS BRIEF:

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- ✍ **RECORD BREAKING SPENDING TOTALS**
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GOVERNOR DAVIS' MAY REVISION WANDERS INTO FISCAL IRRESPONSIBILITY

While the May Revision actually proposes a slight reduction in General Fund spending totals – the proposed \$79.9 billion General Fund expenditures for 2001-02 are \$570 million less than the revised spending estimate for the current year and \$3.2 billion less than the Davis Administration proposed in January – a closer look reveals that the Davis administration has set an all time record for expenditure growth and growth in the bureaucracy. Beyond that, the May Revision is fiscally irresponsible on several counts:

- ?? **An Inadequate Reserve.** In California, there is a longstanding agreement that a prudent reserve would be at least 3 percent of revenues. Senate and Assembly Republicans have consistently advocated for at least such a reserve and made room for one in their Joint Caucus Budget Priorities announced last December. While the Governor's Budget proposal fell short of this goal, it *did* include a reserve of \$1.9 billion, or 2.4 percent of then-estimated revenues. ***The May Revision reduces the reserve to \$1 billion, a mere 1.3 percent of revenues.*** To build a 3-percent reserve would require an additional \$1.2 billion.
- ?? **Wildly Optimistic Assumptions on Energy and Cash-flow.** The May Revision assumes that the recently authorized \$13.4 billion in revenue bonds will be adequate to pay back General Fund loans and continue purchasing power as long as needed. In reality, even a best-case scenario shows that the

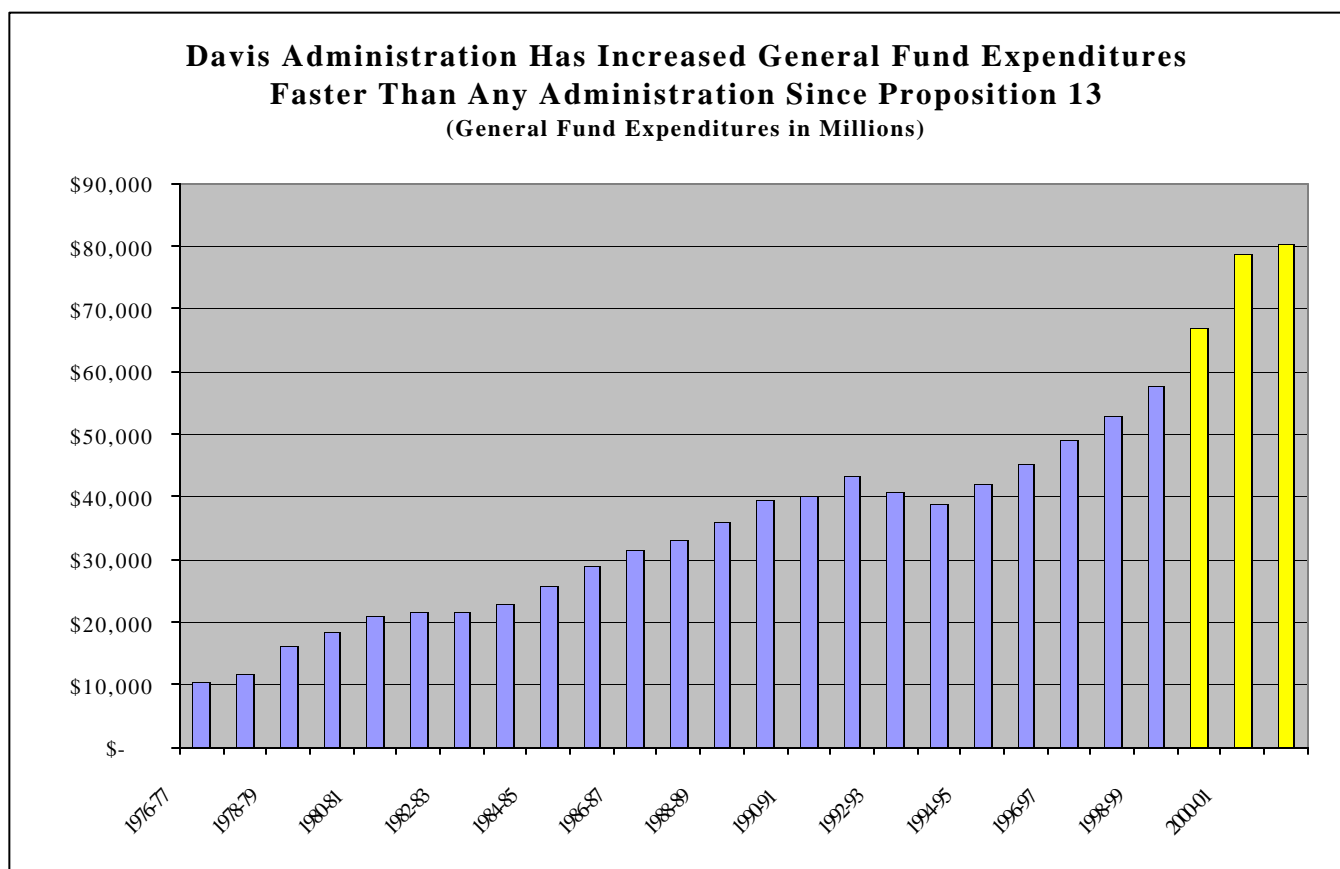
state will run out of cash no later than March of 2002, well short of the Davis administration's very optimistic target date of November 2002 for "breaking even" on the power purchase program.

?? **May Revision Actually Proposes an Operating Deficit!** The May Revision is actually a deficit budget in that it proposes General Fund expenditures of \$79.7 billion and revenues of only \$74.8 billion, an operating deficit of \$4.9 billion, or 6.6 percent.

?? **Pushes Spending Pressures Into the Out-year.** We asked the Legislative Analyst's Office to project Governor Davis' 2001-02 budget into 2002-03. The projection assumes no additional law changes or policy changes beyond those included in the May Revision. This baseline projection shows that General Fund costs will rise to \$84.5 billion in 2002-03, which is almost \$10 billion more than the DOF revenue estimate for 2001-02. In other words, Governor Davis' May Revision relies on state revenues to grow by \$10 billion, or 13.4 percent in 2002-03 just for the state to break even.

RECORD BREAKING SPENDING TOTALS

Figure 1



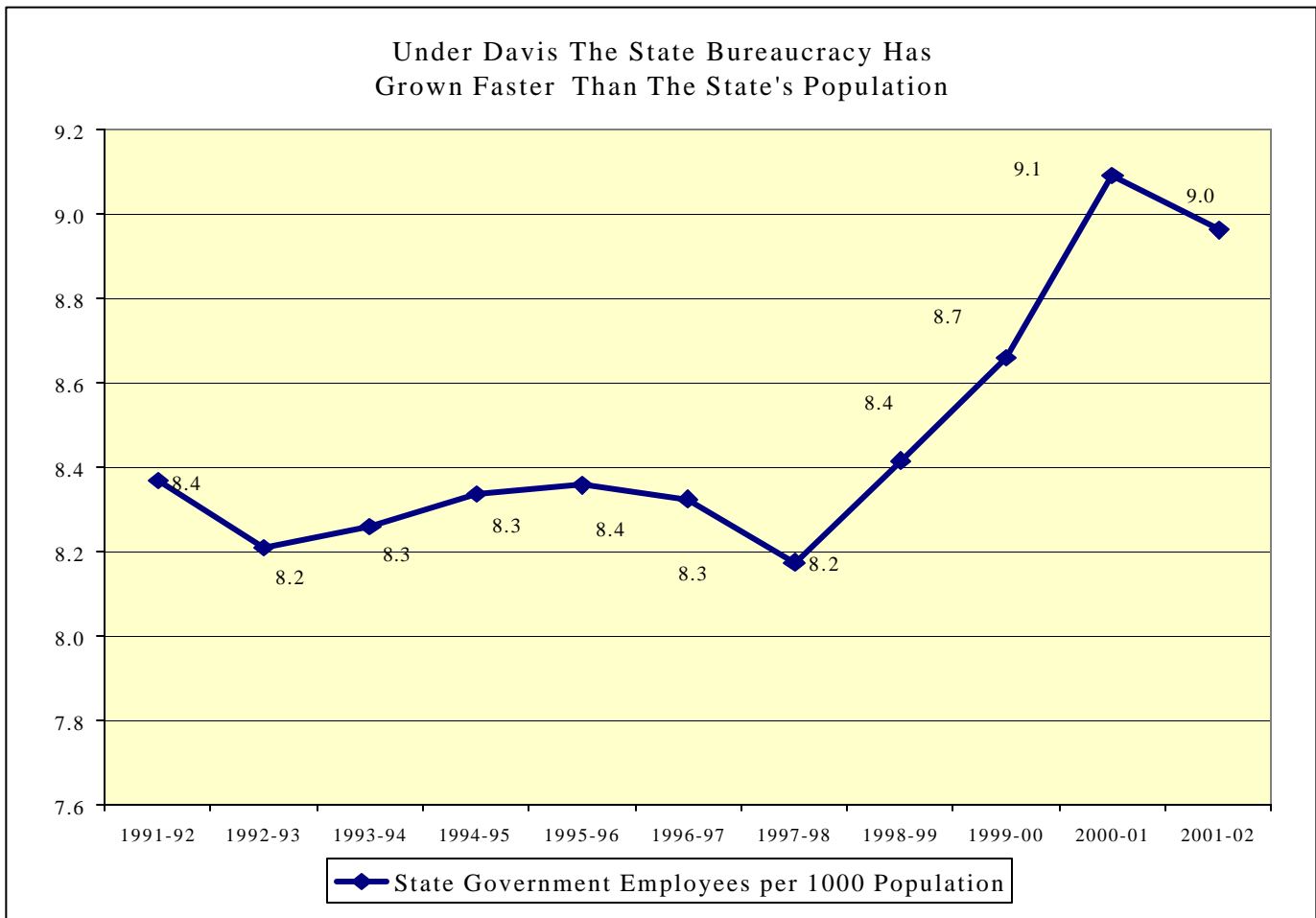
✍✍ The Davis administration holds the record for the largest percentage increase in state government since the enactment of Proposition 13. Davis increased spending in the current year by 17.8 percent. The highest spending growth in a single year occurred in 1978-79, when state General Fund spending increased by 39 percent, but this was due to the implementation of the massive funding shifts that were enacted after Proposition 13.

✍✍ The Davis administration has out paced both the Deukmejian and Wilson administrations in spending. In his first three years, Davis increased spending by 38 percent, which equates to an average annual increase of 11 percent. In contrast, Deukmejian increased General Fund spending by an average of 8 percent per year, while Wilson averaged only a 4.6 percent annual rate of increase.

✍✍ Another way to look at this is that Davis will have boosted General Fund spending by \$21.8 billion in three years, while his predecessors added only \$18.5 billion and \$17.6 billion respectively, *during their entire 8 year terms*.

HUGE INCREASES IN THE STATE BUREAUCRACY

Figure 2



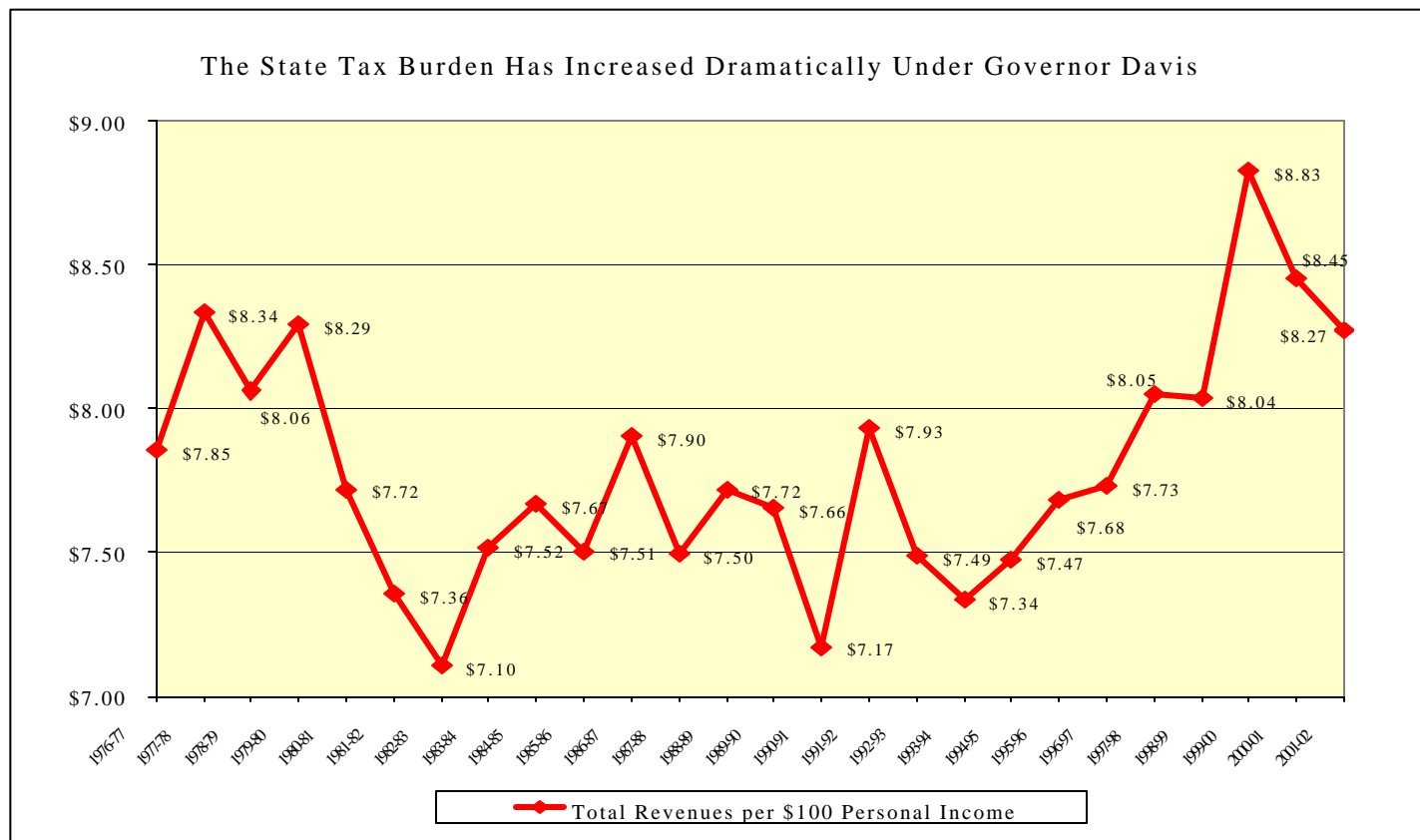
✍✍ As the figure above shows, the number of state employees per 1000 state residents has grown substantially in recent years. While the May Revision reduces this number slightly, the total increase during the Davis administration is still substantial – from 8.4 state workers for every 1,000 residents in 1998-99 to 9 in 2001-02, an increase of 7 percent.

✍✍ The Davis administration has also dramatically increased the cost of the state's bureaucracy. When Governor Davis took office, the total budget for the bureaucracy ("state operations") was \$28.1 billion. As proposed in the May Revision, this cost for 2001-02 will rise to \$36 billion, an increase of nearly \$8 billion, or 28 percent.

Governor Wilson also presided over an \$8 billion growth in the cost of the state bureaucracy, but it took his administration its entire 8 years to get there, as compared to Governor Davis' three years

TAX INCREASES MAR GOVERNOR DAVIS' MAY REVISION

Figure 3



The best measurement of the tax burden is the dollars of total state revenue collected for every \$100 of Personal Income, which is basically the income that all of the state's residents earn each year.

By this measure, the Davis administration has presided over a return to the tax burden levels that spurred the Proposition 13 tax revolt.

In 1977-78, just as the tax revolt hit its stride, the state's residents were paying \$8.34 in state government taxes for every \$100 they earned. Under Governor Davis, this ratio jumped to \$8.83 per \$100 in 1999-00, and is expected to decline only slightly to \$8.27 in the budget year.

Despite a budget that includes \$16 billion in *more* annual General Fund revenue than when he took office, Governor Davis is raising taxes on all Californians and is renegeing on the few meager tax breaks he proposed just back in January. This includes:

?? **Sales Tax Increase:** Because it fails to provide an adequate reserve, Governor Davis' May Revision will result in a sales tax increase. The Governor is proposing a 1/4 cent sales tax increase effective January 1, 2002. This will raise California taxes by about \$1.2 billion annually.

?? **Back to School Tax Back On:** Governor Davis eliminated the proposal to provide \$27 million in tax relief to California citizens in 2001-02 who need to provide for their school age children.

- ?? **Software Developers Tax Increase:** Governor Davis reneged on his commitment to provide \$500,000 in additional credits in 2001-02.
- ?? **Space Launch Tax Increase:** Governor Davis back tracks on his commitment to expand this exemption by \$6.3 million in 2001-02, \$2.6 million in 2002-03, and \$0.8 million in 2003-04. *This proposal was similar to the Joint Republican Proposal.*
- ?? **Employer Transit Pass Tax Increase:** The Governor eliminated this proposal which would have provided \$3 million in credits to employees in 2001-02, \$3 million in 2002-03, and \$4 million in 2003-04.
- ?? **Loaned Teacher Tax Increase:** The “Education Governor” eliminated the proposal to provide about \$1 million in credits per year to professionals who leave their companies temporarily to teach in public schools. *This proposal was similar to the Joint Republican Proposal.*

GOVERNOR DAVIS’ COMMITMENT TO EDUCATION: A DISTANT SECOND TO FORMER GOVERNOR WILSON’S

While the May Revision provides an increase in K-14 Proposition 98 funding, the level it proposes still leaves the Davis administration in second place to its predecessor. Given the May Revision proposal, the first three years of the Davis Administration will have increased Prop. 98 General Fund spending by 32 percent, while all other General Fund spending will have increased by 42 percent. Clearly, the Davis Administration has given a higher priority to health, welfare, and other components of the state’s budget than to education. On the other hand, in the last 3 years of the Wilson administration, Prop. 98 General Fund spending increased by 39 percent, while the rest of state government’s General Fund costs increased by 20 percent.

Governor Davis’ May Revision—Mixed Blessings For Schools

Proposition 98 Overview. The May Revision proposes to fund Proposition 98 in 2001-02 at \$286 million more than proposed in January – much of it with one-time funding. However, because of increases in average daily attendance, the proposed per pupil funding level is *below* that proposed in January. Moreover, the May Revision proposes an actual *decrease* in ongoing funding of \$383 million from 2000-01 to 2001-02. But the Administration more than makes up for this by conveniently scooping up over \$370 million in current year savings. In addition, the Administration includes in its calculation of the budget year funding level \$541 million in one-time “settle-up” funds, which is actually funding owed to schools for the 1995-96, 1996-97, and 1997-98 fiscal years.

K-12 – GOVERNOR’S INITIATIVES

The Governor has proposed a number of changes to the education proposals introduced in January, among them are:

- ?? **Middle School Extended Year:** The Governor has chosen to scale back this program, carried in SB 1020 (Escutia) from 30 additional days to 20 (reduced cost from \$100 million to \$65 million in year one). It is not enough. Moreover, the bill adds two new components: a High Priority Students Block Grant (\$220 million) and a Targeted Instructional Improvement Block Grant (redirecting \$1.2 billion in compensatory education funding and desegregation funding from these programs into a block grant). So in addition to the bill costing more (\$280 million in year one as opposed to \$100 million), it also includes an inappropriate redirection of existing funds.

- ?? **Mathematics and Reading Professional Development:** The May Revision proposes to reduce first-year funding for this program from \$335 million to \$160 million. The Administration has re-evaluated its estimate of the number of expected participants in this program.
- ?? **Governor's Performance Awards :** The Governor proposes to reduce by \$123 million funding previously promised as an incentive to teachers who improved their students' achievement.
- ?? **Other Reductions:** The Governor has also reduced proposed expenditures for other of his programs. For example, the Algebra Incentive program (\$30 million to \$20 million) and the High Tech High program (\$20 million to \$10 million).

School Energy Costs

The Governor has proposed to spend \$541 million in one-time, prior year Proposition 98 funding to pay for increased energy costs for K-12 schools in 2000-01 and 2001-02. Under this proposal, schools would have to commit to reducing energy consumption by 10 percent (from an unspecified base). This funding – about \$90 per pupil – would be allocated to all school districts regardless of their geographic location, their utility provider – or any other factor affecting their actual energy costs. In effect, this energy cost funding provides an energy crisis windfall for school districts within municipal utility districts – such as Los Angeles Unified and Sacramento Unified School Districts. Furthermore, that this funding is one-time in nature suggests that the Governor assumes energy costs will have decreased to their 1999-2000 levels by the end of the budget year.

K-12 – REDUCTIONS

In addition to the reductions discussed above, the May Revision proposes to make the following cuts – some of which reach below current year funding levels – as follows:

- ?? \$35 million from the Instructional Time and Staff Development Reform program
- ?? \$10 million from the 7th and 8th Grade Math Academies
- ?? \$60 million from the Elementary School Intensive Reading program
- ?? \$30 million from the 9th Grade Class Size Reduction program
- ?? \$16.8 million from the English Language Acquisition program
- ?? \$10 million from the Teacher Peer Assistance and Review program
- ?? \$10 million from the Digital High School program
- ?? \$17.7 million from the Adult Education program

In addition to the reductions discussed above, the May Revision proposes to scale back augmentations proposed in January, as follows:

- ?? \$20 million from the After School Learning program
- ?? \$9.5 million from the Deferred Maintenance program
- ?? \$5 million from the Academic Volunteer Mentor program
- ?? \$10 million in one-time funding for equipment for Regional Occupational Centers and Programs

K-12 - State Department Of Education - State Operations - More Bureaucracy

The May Revision proposes to provide funding for 11 positions at the State Department of Education (SDE) headquarters – 7 of which are to support Governor's initiatives. These positions account for most of the over \$2 million General Fund increase for SDE state operations in the May Revision.

PROMISES BROKEN, COMMITMENTS UNFULFILLED, OPPORTUNITIES MISSED, SMOKE-AND-MIRRORS BUDGETING

Local Government Short Changed By Davis Proposal

Despite the fact the Administration has ripped off billions of dollars from local government in ERAF funds over the last several years when there were huge budget surpluses, the May Revision includes nothing for local government. In fact, the Administration proposes to delete the \$250 million in discretionary funding to local governments and to reduce the \$75 million for technology grants to local law enforcement to only \$20 million.

Housing Programs Severely Cut Back

California is in the middle of a prolonged and severe housing crisis. At a time when California needs leadership in housing issues, this Governor has completely dropped the ball and is now back-pedaling on the few housing initiatives he has proposed since taking office.

?? **Jobs/Housing Balance Improvement Program:** The May Revision eliminates the \$200 million augmentation for incentive grants to local government that increase their level of housing permits. This action eliminates local incentives to encourage more housing developments.

?? **School Facilities Fee Assistance Program:** The May Revision completely reneges on the deal three years ago to include a developer fee relief pilot program as part of the Proposition 1A bond program. The May Revision eliminates the future appropriations for the program (\$40 million in 2001-02 and \$20 million in 2002-03) and transfers the uncommitted balance of existing funds (approximately \$86 million) to the General Fund.

?? **California Homebuyers Down Payment Assistance Program:** The May Revision transfers \$18 million of the original \$50 million available for the program to the General Fund. This was the *only* component of the Governor's housing package last year which promoted homeownership as opposed to multifamily housing programs. Now, the Governor is gutting this homeownership program at a time when it is needed more than ever.

Davis Administration's Run On The Infrastructure Bank

The Legislature enacted the Infrastructure Bank several years ago with \$500 million in capital in order to address critical local government needs. Governor Davis is now backtracking on this commitment to local government infrastructure financing by transferring \$177 million of the Infrastructure Bank fund balance to the General Fund where he can use it to pay for social programs and bureaucrat salaries. This action dramatically reduces the funds available for making low-interest loans to local communities for various capital projects and will be sorely missed in many communities around the state.

California Arts Council – Still Loaded With Useless Pork

The May Revision includes a reduction of \$14 million for the Cultural Infrastructure Development Fund proposed in the January Governor's Budget. Even with this proposed reduction, the Arts Council budget is still over 300% LARGER than 1997-98 with much of the funding going for pet political projects the Governor doles out to his supporters.

Reductions to State Departments Don't touch Vacancies – Davis Still Funds Thousands of "Phantom" Employees

The May Revision proposes a statewide, unallocated General Fund reduction in non-Proposition 98 state operations appropriations in the budget year. The Administration states that the reduction would be approximately 2.5 percent of support appropriations and will total \$50.0 million. The state operations appropriations for the following are exempt from any reduction:

- ?? 24-Hour Care Departments
- ?? Public Safety Departments
- ?? Higher Education and Special Schools
- ?? Revenue Producing Departments

Even though Senate Republicans have clearly demonstrated that there are thousands of fully funded, yet vacant positions in state government, the Davis May Revision fails to address this issues at all. Senate Republicans have made recommendations to cut 5,600 vacant positions and save tax payers over \$800 million. The Davis response is a meager \$50 million reduction and leaves all vacant positions in tact.

May Recount (SIC) Shows Touch Screen Voting No Longer a Priority

The May Revision eliminates a \$40.0 million General Fund appropriation proposed in the January Budget for a touch screen voting pilot project in three California counties.

Payment of Interest on General Fund Loans Soars

In the January Governor's Budget proposal, the 2001-02 interest cost on internal borrowing was anticipated to be only \$5.0 million due to the surplus General Fund revenues. However, now that the General Fund is paying billions for electricity purchases and now that the revenue forecast has been revised downward, this estimate is being revised. While the level of internal borrowing is unknown at this time, a conservative estimate of \$100.0 million is included in the May Revision.

General Obligation Bonds and Related Debt Service

In the current fiscal year, the Governor's Budget anticipated current year General Obligation (GO) bond debt service expenditures of approximately \$2.286 billion. However, this estimate has been revised downward by \$36 million due to savings from refunding sales, accrued interest, and premiums from bond sales that occurred in October and December of 2000 and February 2001. In the budget year, the January Budget forecast GO bond debt service expenditures of approximately \$2.583 billion. The May Revision now forecasts a net increase of \$26.2 million in the budget year resulting from higher projected debt service.

GOVERNOR DAVIS' MAY REVISION LOWERS THE BAR FOR HIGHER EDUCATION

Davis Administration Seeks Divorce From The Higher Education Partnership

In January, the Governor's Budget announced that the Partnership Agreement with the University of California (UC) and the California State University (CSU) "underscores the Administration's commitment to financial support" for public higher education. The Partnership was to have provided a long-term stable funding source – a 4 percent base increase plus 1 percent for core areas of need – annually for UC and CSU in return for annual progress on a set of accountability goals. In the May Revision, the Governor abrogates the Partnership, cutting the 4 percent base increase in half and eliminating the 1 percent increase for core needs. The savings gained by dissolving the Partnership? Over \$160 million.

Governor Davis' May Revision Cuts UC

Other cuts proposed for UC include:

- ?? \$20 million to cut additional one-time funding for instructional materials and equipment and deferred maintenance.
- ?? \$10 million to eliminate environmental research and engineering and computer science research proposals.
- ?? \$5 million to reduce funding for the UC Professional Development Institutes.
- ?? Redirection of \$3 million for the MIND Institute at UC Davis from support to capital outlay.
- ?? \$1.5 million to eliminate funds for expansion of Graduate and Professional School outreach.

May Revision Proposes Lease Revenue Bonds—If It's Good Enough for Utilities, Why Not Try It For UC?

The May Revision achieves "savings" by shifting \$158.6 million for UC Merced and \$26 million for UC San Francisco/Fresno Medical Center from General Fund to lease revenue bonds; it reduces UCSF/Fresno

Medical Center by \$4 million; and it adds \$30 million to fund a facility for the MIND Institute with lease revenue bonds. These “savings” could easily double the costs of these projects.

May Revision Gives California Community Colleges a Junior Share of Funding

The May Revision cuts \$28 million from ongoing funding for community colleges – from \$4.72 billion proposed in the Governor’s Budget to \$4.70 billion proposed in the May Revision. However, the Governor can actually claim he is increasing funding over the January proposed levels when funding tied to higher energy costs is factored in.

Augmentations

- ?? \$49 million in one-time funds to be allocated on a equal amount per-square-foot basis for increased energy costs and conservation efforts in the current year and budget year. The Administration’s use of one-time funds for energy may indicate its expectation that energy prices will decrease in 2002-03. It should be noted as well that the allocation formula proposed makes no allowance for actual higher energy costs – the Los Angeles Community College District served by the municipal LA Department of Water and Power is funded at the same rate as the Butte Community College District served by PG and E.
- ?? \$13 million, resulting primarily from decreased local property tax estimates and also reflecting a reduced COLA and other baseline adjustments.

Reductions

- ?? \$20 million cut for much-needed scheduled maintenance and for instructional equipment and library materials.
- ?? \$5 million for the Teacher and Reading Development Program.

Less Aid & Little Comfort For California Student Aid Commission

The May Revision cuts funding for the new Cal Grant entitlement program by \$35 million in both the current year and the budget year. The Governor – who reluctantly agreed to expand access to higher education in the first place – now believes that there will be fewer participants than previously estimated.

Governor Davis’ May Revision Even Books Savings In The California State Library Budget

The May Revision proposes to cut funding for state library programs that increase literacy and promote general knowledge from their proposed January levels back down to their current year levels, as follows:

- ?? Decrease \$3.2 million from the Library of California
- ?? Decrease \$500,000 from the Families for Literacy program
- ?? Decrease \$2.1 million from the Public Library Foundation

Retreat in the War on Methamphetamine

The May Revision proposes a reduction of \$10 million to Davis’ January proposal dealing with Methamphetamine suppression activities in the Central Valley, bringing total proposed funding to \$30 million. As a result, the revised proposal includes \$15 million in one-time funding for equipment and \$15 million of on-going funding for local agencies to hire more personnel dedicated to investigating and prosecuting Methamphetamine offenses.

Technology Grants for Local Law Enforcement Down-Sized

The May Revision proposes to reduce the Governor’s January Budget proposal by \$55 million and eliminate the \$100,000 minimum grant feature. It is not clear whether this reduction is related to the continuing electrical power crisis, although most of this desperately needed crime-fighting technology does require

electricity. The revised proposal would be \$20 million, allocated on a straight per-capita basis, which virtually guaranteed that the bulk of the money will go to Los Angeles and the Bay Area.

TRANSPORTATION—Governor Davis' May Revision – Congestion Relief Hits Massive Road Block

The May Revision proposes to suspend for two years the commitment the Governor and the Legislature made to commuters to dedicate 100 percent of the gasoline sales tax revenue for transportation purposes through the fiscal year 2005-06. The proposal would extend the length of the program out until 2007-08. This scheme would capture \$1.3 billion in 2001-02 and \$1.177 billion in 2002-03 and revert it back to the General Fund for non-transportation related purposes. Last year, the Transportation Congestion Relief Act (TCRA) was approved. That measure proposed to fund several individual rail, transit and highway projects chosen by the Governor and Legislature. Although 64 percent of the funds appropriated would fund non-highway projects, it still contained a formula that would have provided additional revenue to the State Transportation Improvement Plan (STIP), local street and road maintenance, and the Public Transportation Account (PTA). The May Revision proposal would suspend funding for TCRA projects and STIP augmentation for two years. The funding for local street and road maintenance will be funded from a loan from the State Highway Account, and the PTA augmentation would be paid from higher than expected revenue from other sources.

The Governor's May Revision proposal assumes that the commitment of gasoline sales tax money would sunset at the end of fiscal year 2005-06. However, there are three bills pending in the Legislature which would extend that sunset indefinitely. *Therefore, if those bills were to become law, the Governor would be gutting his transportation commitment by \$2.5 billion.*

Despite Financial Problems, The May Revision Continues To Float Pork Barrel Projects

The May Revision of the budget reduces \$35 million General Fund for the River Parkways Initiative. The new proposal would now fund \$35 million for various projects. The project reductions are as follows:

- ?? From \$25 million to \$5 million for the Los Angeles River North
- ?? From \$15 million to \$6 million for the Los Angeles River South
- ?? From \$7 million to \$4 million for the San Joaquin River
- ?? From \$4 million to \$1 million for the Sacramento River

There were no funding changes for Tuolumne River (\$8 million), Guadalupe River (\$1 million), and the \$10 million "opportunity matching" grants for future projects throughout the state.

The Governor's Budget proposed \$70 million General Fund, in addition to \$7.65 million in Proposition 13 bond funds, to expand the River Parkway Initiative, which is a program that is normally funded with bond funds. In 1996, Californians approved Proposition 204, which among other things, appropriated \$27 million in start-up funds for the parkway program. In March 2000, voters approved Propositions 12 and 13, which appropriated \$33.5 million and \$95 million respectively for parkway projects. Although the program has had \$155.5 million appropriated to it, a detailed plan that establishes a process and a set of criteria to prioritize river parkway projects statewide is lacking. At first glance, the program might appear to be an initiative to renovate river parkways, but the reality is that without a detailed plan outlining priority projects, this proposal is nothing more than pork for selected portions of the state. The state has more pressing needs than this one.

Bureaucrats Overflow At The Department of Water Resources

The May Revision augments DWR's budget by \$22.2 million General Fund for supporting 88 new positions relating to the purchase of electrical power pursuant to the authority granted in Chapter 4, Statutes of 2001 (AB 1x). In March 6, 2001, the Vice Chair of the Senate Budget Committee, Senator Ackerman, sent a letter

to the Chair of the Senate Budget Committee, Senator Peace, opposing a deficiency authorization letter that would authorize 88 new positions and appropriate \$8.133 million to carry out the power purchasing authorization stated above. At that time, DWR had 581 vacant positions, and Senator Ackerman recommended that DWR take the salary savings attributed to those vacant positions and fulfill the responsibilities detailed in the deficiency letter. This May Revision proposal would make those 88 positions permanent. This proposal is very troublesome because DWR still maintains over 550 vacancies. Additionally, the need for these positions would become obsolete after 18 months because the power purchasing authorization contained in AB 1x sunsets on January 2, 2003. A more fiscally responsible proposal would have been to reclassify 88 vacant positions and reappropriate the \$6.9 million associated with those positions to administer the power purchasing responsibilities required pursuant to AB 1x. That action would reduce the cost of the proposal to \$15.3 million for operating expenses and equipment.

Governor Davis' May Drown Local Flood Control Districts

The May Revision reduced funding by \$50 million General Fund to \$33 million for local flood control subventions. In addition to that proposal, the May Revision augmented DWR's budget by \$3.7 million to fund the Governor's Advisory Drought Planning Plan, which released its report in December 2000. The recommendations are: 1) Prepare an environmental impact report for a critical water shortage purchasing program, 2) provide technical assistance to rural homeowners and small water systems on private wells, 3) provide technical and financial assistance to help local agencies develop groundwater maintenance plans and collect data, and 4) provide technical and financial assistance to help local agencies prepare integrated water resource management plans. This proposal will implement the Panel's recommendations as well as provide funding to address emergency drought conditions in Klamath Basin. This proposal is rather ironic because as the Administration prepares for drought conditions, it punishes localities desperate for state assistance for flood control claims.

Governor Davis' May Chokes Off Funding For Clean Air

The May Revision cuts by \$68 million from the \$100 million General Fund proposal for a diesel emission reduction program to replace or retrofit diesel engines in trucks, farm equipment, and marine vessels. Executive Orders D-24-01, and D-28-01 require the Board to establish an emission reduction credit (ERC) bank, and to provide peaker power plants emission offsets in order to add or expand capacity for the summer peak season. To establish this program, the board shifted diesel emission credits from the Carl Moyer program to the ERC bank to allow peaker plants to be brought on-line by June 2001. Local air districts will sell ERCs at \$6,000 per ton per pollutant, and \$3,000 per ton per pollutant for applicants who intend to sell their power to the Department of Water Resources. Revenues generated from this program will be kept by the local air districts and used for emission reduction projects.

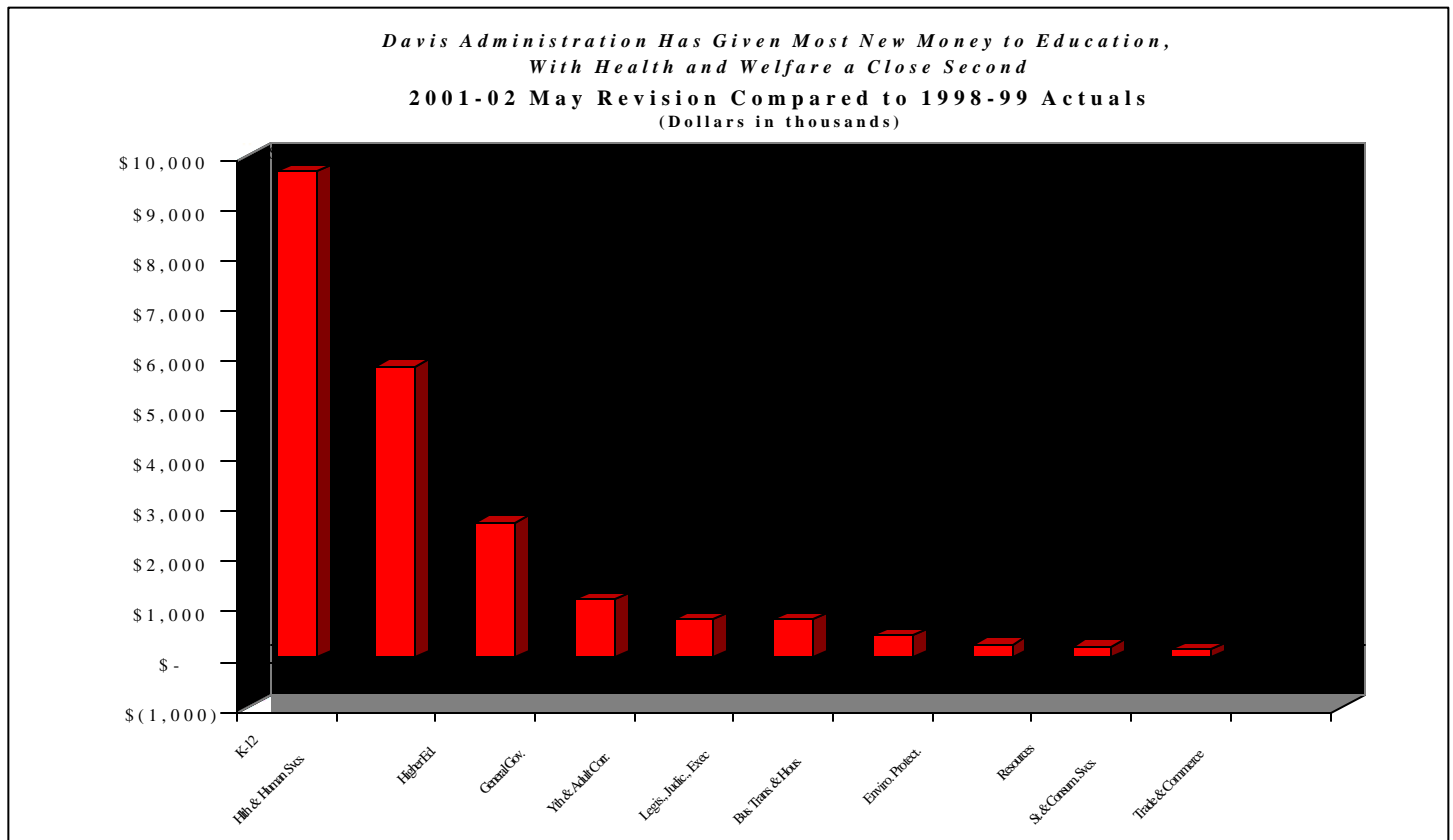
The May Revision shifted the funding from the General Fund to the Motor Vehicle Account for the \$50 million General Fund Zero Emissions Vehicle (ZEV) Proposal. This program would provide a \$5,000 grant for the purchase of a ZEV, with the intent of having 10,000 more ZEV's on the road in the next three years. Currently, there are approximately 2,300 ZEV's in California with an average cost of \$18,000 per car, which does not include the expensive cost of a home charger. This proposal would attempt to assist those who are interested in purchasing a ZEV to use a \$5,000 incentive to offset the cost. There are many problems with this proposal, but two in particular are worth noting. First, notwithstanding the \$5,000 incentive, the cost of purchasing a ZEV would still be high. If the intent of the program is to replace high-polluting vehicles with zero-emission vehicles, then the program will fall short of its goal. Mostly low income families drive high-polluting vehicles and the \$5,000 incentive would still make the purchase of one of these vehicles unattainable. Second, California is the midst of an energy crisis, and 10,000 additional ZEV's charging throughout the day is antithetical to the Governor's emphasis on energy conservation.

Turn Off Your Air Conditioner, But Don't Go To The Beach!

The May Revision cuts \$90 million from the \$100 million General Fund for the Clean Beaches Initiative, which would provide local assistance grants to reduce the number of beach closures due to contamination.

Health & Welfare

Figure 4



Davis' May Revision Protects His Massive Increases in Health and Welfare

The May Revision proposes another \$207 million *General Fund* increase in Health and Welfare as compared to the Governor's Budget as proposed in January. This brings the total increase in this area since Governor Davis took office to \$5.8 billion, or 36 percent. It is remarkable that, in the face of reduced revenues and the fiscal uncertainty arising from the energy crisis, Governor Davis has continued to increase funding in this area. But even this is not the whole picture. With various "smoke and mirror" tricks, the Governor has managed to hide a number of very major funding increases that will occur in the budget year and will be even greater in the out-years. Some examples of such "tricks" are included in the items listed below:

?? **Tobacco Settlement Fund:** The State expects to receive \$475 million during fiscal year 2001-02; and unlike past years, the Administration is proposing to establish a special fund in which to deposit these revenues and to use the funds solely for health care expansions and to retain a 16 percent reserve. In the past, these revenues have gone directly into the General Fund and were not targeted to any specific program. Contrary to assertions by advocates, nothing in the settlement requires, or even encourages these funds to be spent on health.

- ?? **Healthy Families Program Expansion to Cover Parents:** The true cost of this expansion is not reflected in the budget because implementation is being delayed by three months to October 1, 2001 and the actual expansion will be phased in over several years. Although the May Revision shows a budget-year savings of \$44 million (Tobacco Settlement Fund), these funds will not be available for expenditure elsewhere and huge out-year costs go unrecognized even though federal reauthorization of this program is not guaranteed.
- ?? **Healthy Families/Medi-Cal for Children Outreach:** The May Revision includes a total increase of \$7,479,000 over the budget released January 10. Expenditures of \$49,630,000 for education and outreach are being proposed for the budget year. May Revision increases include approximately \$2 million to pay a \$25 application assistant bounty to add parents of eligible children (even though little or no new information will be collected); \$2.5 million to conduct training for application assistants on the new "Health e-app" (automates transmission of application information); and the restoration of \$3 million cut in the January budget for advertising. The May Revision also assumes a \$5 million backfill of Prop. 10 funds to replace some General Fund expenditures for media/advertising.
- ?? **Sunset of Transitional Inpatient Care (TIC):** The May Revision includes a General Fund increase of \$17.4 million. This represents another bail-out of Los Angeles County, where the majority of disputed "TIC days" occur. The sunset will sanction the practice of keeping patients in an acute care setting when they could be transitioned to a community setting at a much lower cost. Such practice may be in conflict with the stated Section 1115 Waiver goal of increasing outpatient care.
- ?? **Tobacco Tax Stamp:** The Administration is proposing budget trailer bill language that will result in net increased revenues of \$9.7 million by reducing the discount given to tobacco wholesalers and distributors for affixing tax stamps to tobacco products. The discount will be reduced from \$11 million to \$1.3 million per year. The increased revenues will be used to augment various special funds dedicated to health care and to transfer a little over \$1 million to the General Fund.

Davis Ignores Trigger Requirements to Fund IHSS Wage Increases

Current law requires the State to fund wage increases in the In-Home Supportive Services (IHSS) program only if General Fund revenue growth exceeds 5 percent (trigger). The January 10 budget did not include funding for this increase, since it was unlikely that the trigger would be reached. Since then, labor advocates have lobbied for the increase without regard to the trigger. The Administration proposes to delete the trigger requirement and provides a \$57 million augmentation for IHSS wage and benefit increases.

Welfare Gets Higher Cost-of-Living Adjustment than Education

Cost-of-living adjustments (COLAs) are provided to fund various cost increases related to the acquisition of goods and services. In the budget year, the Governor proposes to provide welfare recipients with a 5.31 percent COLA. In contrast, the education COLA will receive almost 30 percent less, with only a 3.87 percent COLA.

Counties Robbed of CalWORKs Performance Incentives

Not only does the Governor not provide performance incentives to reward counties for reducing welfare caseload and costs, he also proposes urgency legislation to de-fund the \$250 million budgeted for counties in the current year.

Employment Services Cut in Favor of Child Care

Employment services funding to move people off welfare and into the workforce was cut by \$100 million in the current year and \$26 million in the budget year. These funds were instead redirected to fund increases in child care.

Missed Opportunities
Joint Republican Caucus Proposals Compared to the May Revision
General Fund
(Dollars in Millions)

JOINT REPUBLICAN PROPOSALS	AMOUNT	MAY REVISION
Education		
K-12 School Construction (Non-98)	\$1,000	---
Community College 11% split	320	---
Scholarshare	8	Proposed, but withdrawn
Loaned Teachers Tax Credit	1	Proposed, but withdrawn
Public Safety		
Local Detention Facilities	400	40 (Fed \$)
Crime Labs	200	30
Technology Grants	100	25
Project Exile	10	---
Strengthening Local Government		
Streets and Roads	500	---
Preparing for California's Future		
20-20 Vision	1,000	---
Safety Net		
Access to Care-Medi-Cal Rates	430	107
Senior / Disabled Home Modification Loans	15	---
Investing in Working Families		
Gas Tax Moratorium	1,500	---
¼ cent Sales Tax Elimination	570	---
VLF Elimination	500	---
Dependent Tax Credit	500	---
Sr. Citizen Property Tax Assistance	154	---
Business Climate		
Increase Manufacturers Investment Credit to 8%	\$91	---
Carl Moyer Diesel Fuel Credit	50	---
Basic R&D Tax Credit– Federal Conformity	41	---
Expand MIC to extraction and Ag. equipment	36	---
Alt. R&D Tax Credit – Federal Conformity	26	---
Space Flight Equipment – Sales Tax exemption	14	---
Net Operating Loss – Federal Conformity	7	---
A Three-Percent Reserve	2,500	\$1 Billion (1.3% of Revenues)
TOTALS	\$10,051	Missed Opportunities

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